

## Message Text

LIMITED OFFICIAL USE

PAGE 01 CARACA 03842 031238Z

42

ACTION ARA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

OPIC-03 XMB-02 NEA-10 /110 W  
----- 047684

R 022304Z APR 76

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 2669

LIMITED OFFICIAL USE CARACAS 3842

EO 11652 NA

TAGS: ENRG VE

SUBJ: POLITICAL CONTROVERSY CENTERS ON OIL  
OPERATING COMPANIES FIRST QUARTER LOSSES

REF: CARACAS 3176, ITEM 4, CARACAS A-36, 3/30/76

1. BEGIN SUMMARY. THE BOOKKEEPING LOSSES POSTED BY ALL THE OPERATING SUBSIDIARIES OF PETROVEN FOR THE FIRST QUARTER OF NATIONALIZED OPERATIONS PROVIDED AN OPPORTUNITY FOR COPEI TO ATTACK THE GOV'S MANNER OF TAXING THE INDUSTRY. GOV MINISTERIAL SPOKESMEN, WHILE RIDICULING THE NOTION THAT THE OIL INDUSTRY IS LOSING MONEY AND DEFENDING THE OIL TAX SYSTEM AS NECESSARY TO COMPLY WITH THE OPEC PRICE FORMULA, ACKNOWLEDGED THAT THE TAX PROCEDURE IS UNJUST TO THE OPERATORS. END SUMMARY.

2. CVP PRESIDENT JUAN CHACIN'S STATEMENT TO THE PRESS THAT THE PETROVEN OPERATING COMPANIES WILL POST FIRST QUARTER LOSSES (ITEM 4 OF CARACAS 3176)

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 CARACA 03842 031238Z

UNCORKED A WEEK-LONG POLITICAL CONTROVERSY. ABDON

VIVAS TERAN, A COPEI DEPUTY AND PARTY SPOKESMAN, SEIZED THE OPPORTUNITY TO ANNOUNCE THAT THE GOV POLICY DECISION TO CONTINUE TAXING THE OIL INDUSTRY ON THE BASIS OF ARTIFICIAL TAX EXPORT VALUES WILL CAUSE THE OPERATING COMPANIES TO LOSE AN AVERAGE 31 CENTS PER BARREL DURING THE 1976, OR A TOTAL OF \$214 MILLION OVERALL. WHILE ACKNOWLEDGING THAT HTIS IS NOT AN ACUTAL DEFICIT TO PETROVEN, BUT RATHER A BOOK-KEEPING LOSS ONLY FOR THE OPERATING SUBSIDIARIES, VIVAS TERAN SAID THAT IT WAS NEVERTHELESS A SERIOUS PROBLEM IN THAT IT PREVENTS THE OPERATORS FROM PLANNING, BUTGETING AND CARRYING OUT NECESSARY INDUSTRY INVESTMENT.

3. FINANCE MINSTER HURTADO AND PLANNING MINISTER RODRIGUEZ ISSUED STATEMENTS ATTEMPTING TO EXPLAIN THAT INDUSTRY INVESTMENT WILLNOT BE AFFECTED BY THE TAX SYSTEM, SINCE PROVISION HAS BEEN MADE FOR TEN PERCENT OF OIL REVENUE TO GO DIRECTLY TO THE HOLDING COMPANY TO CARRY OUT PLANNED DEVELOPMENT. THE NEW AND ADDITIONAL TECHNICAL SERVICE COSTS ARE ESSENTIAL TO MAINTAIN THE EFFICIENCY OF THE INDUSTRY, THE MINISTERS EXPLAINED. THEY CHARACTERIZED VIVAS TERAN'S CHARGES AS "ABSURD" THAT THE INDUSTRY WILL SUFFER UNDER THE PREVAILING TAX SYSTEM. AD PARTY OIL EXPERT ARTURO HERNANEEZ GRISANTI ANSWERED VIVAS TERAN WITH THE STATEMENT THAT INSTEAD OF LOSIG THE ABOVE AMOUNT, THE OPERATING COMPANIES WILL GENERATE REVENUE OF AT LEAST BS 34 BILLION FOR THE NATION, AND KEEPING THE PRICE HIGH THRU THE DEVICE OF THE TAX EXPORT VALUES MAY EVEN BRING IN ADDITIONAL REVENUE.

4. THE PUBLIC DEBATE PROMPTED MINES MINISTER VALENTIN HERNANDEZ TO HOLD HIS FIRST MAJOR PRESS CONFERENCE SINCE SHORTLY AFTER NATIONALZITON, USING AS A RRETEXT THAT IT WAS APPROPRIATE TO HOLD USCH CONDFEENCES ON A QUARTERLY BASIS IN ORDER TO INFORM THE PUBLIC OF HOW THE NATIONALIZED INDUSTRY IS PERFORMING. VERY CAREFULLY EXPLAINING THE TECHNICAL SERVICE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 CARACA 03842 031238Z

CONTRACT ARRANGMENTS, PRICING AND TAX POLICY. HERNANDEZ ADMITTED THAT THE OPERATORS REPORTED BOOK-KEEPING LOSSES FOR THE FIRST QUARTER, BUT THAT THE NATION REALIZED AN ADDITIONAL NINE CENTS PER BARREL ON PRICE AND SIX CENTS PER BARREL ON TAX REVENUE UNDER THE NATIONALIZED INDUSTRY IN COMPARISON WITH THE PREVIOUS PRIVATE INDUSTRY SITUATION. HOWEVER, HERNANDEZ ACKNOWLEDGED THAT IT WAS NEITHER

JUST NOR DESIRABLE FOR THE OPERATORS TO SHOW LOSSES.  
HE PROMISED TO MODIFY THE FISCAL SCHEME, BUT ONLY  
AFTER CLEARING HIS PROPOSALS IN THE OPEC FORUM.

5. COMMENT. THE ARTIFICIALLY HIGH TAX EXPORT VALUE  
SYSTEM, ON THE BASIS OF WHICH THE COMPANIES PAY A  
70 PERCENT TAX PLUS ROYALTY, WAS ORIGINALLY ESTABLISHED  
IN 1971 TO OPTIMIZE REVENUE FROM THIS PRINCIPAL SOURCE  
OF GOVT INCOME. IT ALSO PROVIDED AN EFFECTIVE  
METHOD OF RELATING THE WIDE AND COMPLEX RANGE OF  
VENEZUELAN CRUDES AND PRODUCTS TO MIDDLE EAST  
OIL PRICES AT FIRST TO INSURE THAT VENEZUELAN OIL WAS PRICED  
COMPETITIVELY, AND LATER TO RELATE LOCAL PRICES TO  
THE OPEC SINGLE PRICE CONCEPT. THE CONTINUATION OF  
THE TAX EXPORT VALUE SYSTEM AFTER NATIONALIZATION WAS  
MOST LIKELY DONE ON THE ADVICE OF THE FORMER  
VENEZUELAN OPEC GOVERNOR, ALBERTO FLORES, WHO CON-  
VINCED MINISTER VALENTIN HERNANDEZ THAT IT WAS  
NECESSARY IN ORDER TO MAINTAIN OPEC PRICE UNITY.

6. IN RETROSPECT, IT WOULD APPEAR THAT FLORES AND  
HERNANDEZ OVERLOOKED THE DOMESTIC POLITICAL  
IMPLICATIONS OF THIS DECISION. DURING THE PRESSURE  
COOKER LAST MONTHS OF OIL NATIONALIZATION NEGOTIATIONS,  
SANDWICHED AROUND TWO MINISTERIAL OPEC MEETINGS,  
THIS ASPECT OF PRICING WOULD HAVE BEEN EASY TO  
OVERLOOK. WITH ALL OTHER DETAILS CONFRONTING THE  
MINES MINISTRY, A DECISION WAS MADE TO CONTINUE  
THE TAX EXPORT VALUE SYSTEM. AND, SINCE THE OIL  
COMPANIES WERE GIVEN CREDIT TERMS AT THE BEGINNING  
OF 1976 AND NO SIGNIFICANT REVENUE WAS ANTICIPATED  
UNTIL LATE IN THE QUARTER, THE 1976 TAX EXPORT VALUES  
WERE NOT PUBLISHED UNTIL MARCH.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 CARACA 03842 031238Z

7. THE OPERATING COMPANIES, COMPOSED OF ESSENTIALLY  
THE SAME PERSONNEL TRAINED BY THE PREVIOUS PRIVATE  
CONCESSIONAIRES TO WHOM PROFITABILITY WAS SYNONYMOUS  
WITH SURVIVAL, QUICKLY BECAME AWARE OF THEIR UNTENABLE  
POSITION. ALTHOUGH THERE WAS A GRUMBLING AND PRIVATE  
REPRESENTATIONS TO THE MINISTRY, THE ISSUE DID NOT  
SURFACE UNTIL JAUN CHACIN SPOKE OUT. CHACIN, ALTHOUGH  
A VENEZUELAN, HAD RESIDED OUT OF THE COUNTRY FOR  
SOME YEARS UNTIL ASSUMING THE PRESIDENCY OF CVP IN  
JANUARY. WHILE HE DID NOT INTEND TO STIR UP A  
POLITICAL STORM, THE CONTROVERSY WILL PROBABLY SERVE  
TO GET THE OPERATING COMPANIES A MODIFIED TAX SYSTEM.  
THE COMPANIES ARE SENSITIVE ABOUT THIS ISSUE BECAUSE  
THEY FEEL THAT PROFITABILITY WILL BE ONE OF THE

FUTURE CRITERIA USED BY PETROVEN AND THE MINISTRY  
TO FURTHER CONSOLIDATE THE INDUSTRY. THUS, SOME  
VENEZUELAN OIL EXECUTIVE COULD BE ABSORBED INTO  
LESSER POSITIONS OR LOSE THEIR JOBS IF THEIR  
COMPANIES SHOW A CHRONIC LOSS. END COMMENT.  
SHLAUDEMAM

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM INDUSTRY, TAXES, BUSINESS LOSSES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 02 APR 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** ShawDG  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976CARACA03842  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D760126-0500  
**From:** CARACAS  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1976/newtext/t197604105/aaaadmbk.tel  
**Line Count:** 175  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION ARA  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 76 CARACAS 3176, 76 CARACAS A-36  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** ShawDG  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 21 JUL 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <21 JUL 2004 by BoyleJA>; APPROVED <01 NOV 2004 by ShawDG>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** POLITICAL CONTROVERSY CENTERS ON OIL OPERATING COMPANIES FIRST QUARTER LOSSES  
**TAGS:** ENRG, VE  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006